

## Message Text

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12

ACTION EA-14

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-15

TRSE-00 OMB-01 EB-11 COME-00 HEW-08 HUD-02 CU-04

AID-20 RSR-01 /130 W

----- 028813

R 230645Z AUG 73

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 1545

INFO AMCONSUL BRISBANE UNN

AMCONSUL MBLEOURNE

AMCONSUL PERTH UNN

AMCONSUL SYDNEY

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E.O.11652: N/A

TAGS: ECON, EFIN, EGEN, AS

SUBJ: LABOR GOVERNMENT PRESENTS BUDGET OF  
MODERATION

1. BEGIN SUMMARY..TREASURER CREAN'S AUGUST 21 BUDGET  
PRESENTATION RECEIVED WITH MILD SURPRISE AND SOME RELIEF  
AS RESULT OF RESTRAINT WITH WHICH NEW, REFORM-MINDED  
GOVERNMENT APPROACHED FIRST OPPORTUNITY IN 24 YEARS TO  
INFLUENCE AUSTRALIAN SOCIETY IN CRUCIAL WAY. TOTAL  
EXPENDITURES INCREASED 18.9PERCENT TO \$12.2 BILLION (ALL  
FIGURES IN AUSTRALIAN DOLLARS; APPROXIMATE RATE IS  
ONE AUSTRALIAN TO 1.41 US) WHILE RECEIPTS ESTIMATED  
TO RISE 20.6PERCENT TO \$11.5 BILLION. DOMESTIC DEFICIT  
ACTUALLY DECREASED FROM PREVIOUS YEAR'S FIGURE OF  
\$215 MILLION TO \$162 MILLION. DEFENSE EXPENDITURES  
TO RISE LEAST (2.6PERCENT AND CAST DOUBT UPON AUSTRALIAN DEFENSE  
CAPACITY IN COMING YEARS. THIS WILL BE SUBJECT SEPTTEL. MAJOR  
THEME OF PRESS CRITICISM NOTED SO FAR IS BUDGET'S  
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FAILURE TO PROVIDE ANTI-INFLATIONARY IMPACT ON

ECONOMY, ALTHOUGH CRITICS CONCEDE IT WILL NOT HAVE SERIOUS DIRECT INFLATIONARY EFFECT. END SUMMARY.

2. RANGE OF INCREASES IN OUTLAYS PLANNED RUNS FROM 2.6PERCENT (DEFENSE) TO MORE THAN 300PERCENT (HOUSING AND COMMUNITY SERVICES; BUT THIS ITEM ACTUALLY NOT STRICTLY COMPARABLE WITH PREVIOUS YEAR). OTHER MAJOR RISES OVER PREVIOUS BUDGET PLANNED IN EDUCATION EXPENDITURES (92PERCENT), CULTURE AND RECREATION (40PERCENT), EXTERNAL AID (30PERCENT), HEALTH (25PERCENT), SOCIAL SECURITY AND WELFARE (16PERCENT), GENERAL PUBLIC SERVICES (22PERCENT). INCREASES TO BE FINANCED FOR MOST PART BY ANTICIPATED INCREASES IN REVENUES FROM EXISTING TAXES ON RISING INCOME BASE. NO CHANGE IN INCOME TAX RATES PROPOSED, AS PROMISED, THOUGH PAYROLL TAX TO GO UP FROM 2.5PERCENT TO 4.5PERCENT. ADDITIONAL LEVIES ANNOUNCED ON GASOLINE (5 CENTS A GALLON), CIGARETTES (5CENTS A PACK), WHISKEY (78 CENTS A BOTTLE), TELEPHONE CONNECTIONS (\$10INCREASE), AIR NAVIGATION CHARGES (10PERCENT), AND OTHERS. AT SAME TIME MANY TAX EXEMPTIONS AND CONCESSIONS ENJOYED BY BUSINESS ELIMINATED; FOR EXAMPLE DEDUCTIONS OF CAPITAL EXPENDITURES BY SO-CALLED "PITT STREET FARMERS" (ABSENTEE OWNERS) ABOLISHED, EXISTING EXEMPTIONS PRIVATE COMPANIES FROM NORMAL CORPORATE TAX RATES REMOVED, AND PRACTICE OF PERMITTING VINEYARDS TO VALUE INVENTORIES AT OWN DISCRETION DISCONTINUED.

3. EMBASSY COMMENT: OUR PRELIMINARY REACTION ON BASIS READING OF SUMMARIES IS THAT BUDGET APPEARS TO HAVE BEEN SUCCESSFUL ATTEMPT AT MIDDLE-OF-ROAD POLICY-MAKING WHILE AT SAME TIME FULFILLING LABOR PARTY CAMPAIGN PROMISES. IT WILL BENEFIT PRINCIPALLY RESIDENTS OF URBAN AREAS AND MILDLY PENALIZE LABOR'S OPPONENTS, BUSINESSMEN AND FARMERS. WHILE IT INCLUDES SOME REGRESSIVE PROVISIONS INCLUDING EXCISE TAXES ON GASOLINE AND CIGARETTES -- MEASURES A LABOR GOVERNMENT COULD BE EXPECTED TO OPPOSE -- THESE CAN BE ACCOUNTED FOR AS CONSISTENT WITH OTHER LABOR OBJECTIVES. PERHAPS MOST INTERESTING FROM ECONOMIC VIEWPOINT IS DOCUMENT'S NEUTRAL NATURE AS INSTRUMENT OF FISCAL POLICY. THIS PROBABLY TO BE ATTRIBUTED TO DECISION TO TOLERATE LIMITED OFFICIAL USE

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PRESENT HIGH RATE OF INFLATION FOR TIME BEING, UNWILLINGNESS TO TAKE UNPOPULAR MEASURES SUCH AS INCOME TAX INCREASES, AND POSSIBLE PREFERENCE FOR MONETARY POLICY AS ANTI-INFLATIONARY INSTRUMENT. IN FACT RESPECTED AUSTRALIAN FINANCIAL REVIEW REPORTS BUDGET AS PHASE ONE OF A THREE PHASE PROCESS BY WHICH GOVERNMENT INTENDS TO RESTRAIN ECONOMY, WITH PHASE TWO TO BE PRIMARILY A MONETARY TIGHTENING, AND PHASE THREE

A RESTRUCTURING OF ECONOMY AND REALLOCATION OF RESOURCES.

4. DETAILED COMMENTARY AND ANALYSIS WITH SPECIAL  
EMPHASIS ON IMPLICATIONS FOR US INTERESTS WILL FOLLOW  
IN SEPARATE MESSAGES.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 AUG 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** n/a  
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**Legacy Key:** link1973/newtext/t19730821/aaaaaoyu.tel  
**Line Count:** 124  
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**Office:** ACTION EA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 25 OCT 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <25-Oct-2001 by eisnerah>; APPROVED <12-Dec-2001 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** LABOR GOVERNMENT PRESENTS BUDGET OF MODERATION  
**TAGS:** ECON, EFIN, EGEN, AS  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005